



STATE OF CALIFORNIA  
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January 10, 2007

Lenny Goldberg  
California Tax Reform Association  
717 K Street, Ste. 510  
Sacramento, CA 95814

Dear Mr. Goldberg:

I want to thank you for attending FTB's 2006 Taxpayers' Bill of Rights Hearing. Below are responses to the issues you raised at the hearing.

*Reducing filing burden: Continue Readyreturn, strengthen Calfile (more iterative) and taxpayer data.*

In September 2006, the Board directed the FTB to study the feasibility of allowing taxpayers to import certain tax data into software products, including CalFile. Currently, FTB is studying the technical and business feasibility of doing this, and expects to complete the report in June of this year. The "iterative" process that you suggest should occur with CalFile is certainly within the scope of our study. For instance, we will be examining the following items for taxpayer need and technical feasibility:

- Pre-populating CalFile with certain previous return information (name, address, dependents, etc.), along with current year information such as wage, withholding, and estimate payments.
- Allow taxpayers to review and accept/change populated information.

Also, to help more clearly define our business case for this iterative CalFile process, we are developing two surveys for taxpayers. Our current CalFile survey will be modified to include a few questions about pre-filling a taxpayer's return with data that we have. We will also be placing another survey on FTB's Website, asking similar questions.

The actual implementation of a "pre-filled" CalFile application will be dependent upon the findings of the feasibility study report, and the level of effort and cost required.

*Review how the M3 is used and how useful the information is.*

Effective for tax years ending on or after 12/31/04 the IRS required large and medium size corporations who have assets of \$10 million or more to file a schedule M-3. The primary purpose of this form is to provide a complete reconciliation from financial accounting net income to taxable income. For tax years ending on or after 12/31/06, the filing requirement for this form was expanded to include LLC's, S-Corps and partnerships. The objective of this form is to provide more transparent reporting of "book income to tax income". By so doing it will enable the IRS to more quickly and accurately identify potential non-compliance issues, especially in the area of potential abusive tax shelters. This year the California legislature considered legislation that would require similar M-3 reporting for state purposes, however this legislation was not adopted. As this form is fairly new the IRS has not had an opportunity to extensively measure its success in meeting the stated objectives. FTB intends to work closely with the IRS to determine the effectiveness of this form. This along with feedback from the taxpayer and tax professional community will assist in determining the course of action FTB will recommend for the future with regard to this issue.

*Seek legislation to reduce the filing burden for reporting wages for domestic workers.*

While FTB and EDD are generally amenable to changes that ease the burden of the taxpayer, we have not been able to find a resolution for this issue that does not create problems with preserving the rights of "domestic" employees. Specifically, one of those rights is the timely payment of entitled benefits under the UI and DI program. EDD requires wage data on a quarterly basis in order to determine timely eligibility and benefit amounts. The federal government does not require this information quarterly because the administration of the UI program is delegated to the states. For state purposes, if employers reported and paid "domestic" employee taxes on the employer's individual personal income tax return, EDD would not have the ability to provide timely benefits. Any suggestions you have that would alleviate the UI and DI program concerns would be most appreciated.

*FTB needs more timely analysis on legislative bills.*

As Brian Putler indicated at the Hearing, our Legislative Services staff analyze legislative bills and post the resulting analysis as expeditiously as possible. If you have concerns about a specific analysis, please feel free to contact either Brian Putler or me.

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Finally, I would like to apologize for the confusion over the scheduled time for the Board meeting. My staff did not understand that your assistant was asking about the actual Board meeting, not just the Taxpayers' Bill of Rights Hearing. I am sorry.

If you have any further questions or comments, please feel free to contact me anytime.

Sincerely,

Debbie Newcomb  
Taxpayer Advocate

cc: Hon. John Chiang  
Hon. Betty T. Yee  
Hon. Michael C. Genest  
Marcy Jo Mandel  
Alan LoFaso  
Anne Maitland